

1 Q. **Reference: 2018 Cost of Service Methodology Review Report dated November 15, 2018**

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3 On page 16 (lines 6 to 8) it is stated *“Until a reasonable alternative method is developed,*
4 *Hydro recommends the use of indexed asset costs in operating and maintenance cost*
5 *allocations in the determination of specifically assigned charges.”* The CA Energy Consulting
6 Report (page 65, lines 17 – 19) states that Hydro found that the outcome of its calculations
7 confirm that *“the relatively newer transmission assets directly assigned to customers, when*
8 *compared with other transmission assets, produced a reduced O&M cost allocation for the*
9 *direct assignment customers.”* Please file a copy of these calculations. If Hydro has
10 confirmed that newer transmission assets have lower O&M costs than other transmission
11 assets, why isn’t it proposing use of actual O&M costs for specifically-assigned assets?
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14 A. Christensen Associates Energy Consulting’s reference to the outcome of Newfoundland and
15 Labrador Hydro’s (“Hydro”) calculations refers to the information detailed in Hydro’s
16 response to V-NLH-083, Revision 1, filed in the “2013 General Rate Application” (“GRA”)
17 proceeding. That response is provided as CA-NLH-024, Attachment 1.

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19 As Hydro indicated in its Rebuttal Argument, filed in the “2017 General Rate Application”
20 proceeding, “Hydro has implemented internal processes to track operating and
21 maintenance costs related to specifically assigned assets. Hydro plans to make the results
22 available in its next GRA.”¹ This was further noted by the Board of Commissioners of Public
23 Utilities (the “Board”) in Board Order No. P.U. 16(2019).² The Board confirmed that Hydro
24 should, as it had committed in PUB-NLH-078 and its Rebuttal Argument, provide details of
25 the results of its cost tracking for specifically assigned assets in its next GRA. It is premature
26 for Hydro to make any recommendation regarding this option before gathering complete
27 information.

¹ “2017 General Rate Application – Rebuttal”, filed in February 2019, p. 8, lines 20-21.

² “2017 General Rate Application – Order”, p. 59, lines 17-19.

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1 Q. **Reference: RFI V-NLH-066 to V-NLH-069**

2 The response illustrates that the O&M expenses are classified/allocated based on the
3 original cost of the plant in service. Are the original costs all expressed in constant year
4 dollars? If not, please provide a 2013 test year cost of service with the original costs
5 restated in 2013 dollars.

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10 **Existing Methodology**

11 In the 2015 Test Year COS Study, direct Operating and Maintenance (O&M) costs are
12 classified/allocated based on the original cost of the plant in service (which is accounted
13 for in the in-service year dollars). Administrative and General (A&G) O&M expenses are
14 classified/allocated based on a series of calculations using plant in service and direct
15 O&M.¹

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17 Hydro's existing methodology is generally consistent with industry practice in cost of
18 service allocation. However, Hydro acknowledges that this methodology may not be
19 ideal in allocating O&M costs to specifically assigned charges. This is because there is an
20 inherent inverse relationship whereby older plant that cost less at the time of
21 installation, generally requires more O&M than more expensive newer plant. This has
22 become an issue in Hydro's current GRA proceeding by virtue of the significant cost of
23 new specifically assigned transmission assets that are being added to serve new
24 industrial load.

¹ See Exhibit 13, Schedule 2.4A, Page 1 of 2 for the allocated direct and A&G O&M expense for each functional area including specifically assigned. Please refer to Schedule 3.3A, Page 1 of 1 for the breakdown of specifically assigned charges by customer.

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1 The evidence of Mel Dean (the Vale expert) expressed concerns with the current
2 approach with respect to the determination of specifically assigned O&M charges
3 because the ratio of the specifically assigned plant in service to total plant in service
4 does not account for the time value of money.² To address Vale's concerns with the
5 allocation of functionalized transmission O&M costs in determining specifically assigned
6 charges, Hydro has conducted an analysis of the effect on specifically assigned O&M if
7 the cost of functionalized transmission assets (including specifically assigned costs) was
8 adjusted to current dollars (\$2015).

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10 **Alternate Approach**

11 ***Allocation of Direct O&M***

12 An alternate approach to the allocation of the direct transmission portion of O&M
13 expense to specifically assigned charges is to use current dollars (\$2015) as a basis to
14 reallocate the direct transmission O&M expense calculated in the 2015 Test Year COS
15 Study between specifically assigned charges and common.³ Attachment 1 provides the
16 steps used to index the plant values to current dollars. The cost reallocation is based on
17 the ratio of specifically assigned asset costs to the cost of the functionalized
18 transmission assets (including specifically assigned assets), both of which have been
19 adjusted to current dollars (\$2015). Table 1 provides the calculation of the new O&M
20 allocations under the alternate approach.

² Expert's Report on Newfoundland and Labrador Hydro's 2013 General Rate Application, prepared by Mel Dean, April 25, 2014 (Dean evidence); Section 2, page 10, line 7 through page 11, line 2.

³ See Exhibit 13, Schedule 2.4A, Page 1 of 2, Col 5, Line 11 and Col 18, Line 11 for the total direct transmission O&M expense under the current COS methodology (i.e. \$5,522,963 + \$1,285,395 = \$6,808,358).

Table 1

Direct Transmission O&M Expense Allocations under Alternate Method

	Original Plant (\$2015)	% of Total Plant	O&M Allocation (\$)
Common - Transmission Demand	955,438,645	85.69%	5,833,831
Specifically Assigned			
NP	119,798,016	10.74%	731,477
Teck Resources	7,596,050	0.68%	46,381
CBPP - Corner Brook	13,588,201	1.22%	82,968
CBPP - Deer Lake	71,528	0.01%	437
North Atlantic Refining	6,283,073	0.56%	38,364
Vale	12,266,705	1.10%	74,900
Sub-total Specifically Assigned	159,603,573	14.31%	974,527
Total Island Transmission Demand	1,115,042,218	100.00%	6,808,358

- 1 Table 2 shows specifically assigned charges related to direct transmission O&M of
 2 \$974,527 in comparison to \$1,285,395 calculated in the 2015 Test Year COS Study.
 3 Table 2 provides a breakdown of these amounts on a per customer basis.

Table 2
Allocation of Direct Transmission O&M Expense to Customer Groups (\$)

	Current COS Method ¹	Alternate Method ²	Difference	% Change
Specifically Assigned				
NP	743,804	731,477	(12,327)	-1.7%
Teck Resources	94,606	46,381	(48,225)	-51.0%
CBPP - Corner Brook	192,018	82,968	(109,050)	-56.8%
CBPP - Deer Lake	539	437	(102)	-19.0%
North Atlantic Refining	30,702	38,364	7,662	25.0%
Vale	<u>223,726</u>	<u>74,900</u>	<u>(148,826)</u>	-66.5%
Total Specifically Assigned	<u>1,285,395</u>	<u>974,527</u>	<u>(310,868)</u>	-24.2%

¹ Original Plant cost allocation

² Adjusted Plant cost (\$2015) allocation as illustrated in Table 1

- 4 Under the alternate method, the total direct transmission O&M allocated to specifically
 5 assigned customers is \$974,527, a \$310,868 (24.2%) reduction compared to the 2015

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1 Test Year COS Study. Under the alternate approach, the \$310,868 difference in direct
2 transmission O&M, which is currently specifically assigned, would become a common
3 cost.

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5 ***Allocation of Administrative and General Expense***

6 Hydro is also providing a similar alternate approach to the allocation of the A&G portion
7 of O&M expense to specifically assigned charges which will also result in a reallocation
8 of the total A&G expense in the 2015 Test Year COS Study.⁴ The total A&G expense
9 allocated to specifically assigned charges based on the current COS methodology of
10 \$1,213,146 will be adjusted by the percentage change in specifically assigned direct
11 O&M that results from indexing to current dollars (\$2015). This reduces the \$1,213,146
12 by 24.2% to \$919,751. The A&G expense will be allocated by customer based their
13 proportionate share of the assets based on current dollars (\$2015). Table 3 presents
14 the A&G expense allocation under the alternate method.

⁴ See Exhibit 13, Schedule 2.4A, Page 1 of 2, Col 5, Line 29 and Col 18, Line 29 for the total A&G expense in the current COS (i.e. \$5,238,660 + \$1,213,146 = \$6,451,806).

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	2015 COS Study	Alternate Method	Difference
Common - Transmission Demand	5,238,660	5,532,055	293,395
Specifically Assigned			
NP	737,496	690,363	(47,133)
Teck Resources	104,808	43,774	(61,034)
CBPP - Corner Brook	135,764	78,305	(57,459)
CBPP - Deer Lake	381	412	31
North Atlantic Refining	21,708	36,208	14,500
Vale	212,989	70,690	(142,299)
Sub-total Specifically Assigned	<u>1,213,146</u>	<u>919,751</u>	<u>(293,395)</u>
Total A&G Expense	<u>6,451,806</u>	<u>6,451,806</u>	<u>0</u>

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The \$293,395 reduction between the amount calculated in the 2015 Test Year COS Study and the alternate method shown in Table 3 would be treated as a common cost. Table 4 provides a summary of the total specifically assigned charges O&M variance of \$604,263 between the existing and alternate methods.

	Per 2015 COS Study			Alternate Method			Total Difference
	Direct	Admin & General	Total	Direct	Admin & General	Total	
Customer	A	B	C=A+B	D	E	F=D+E	G=F-C
NP	743,804	737,496	1,481,300	731,477	690,363	1,421,840	(59,460)
Teck Resources	94,606	104,808	199,414	46,381	43,774	90,155	(109,259)
CBPP - Corner Brook	192,018	135,764	327,782	82,968	78,305	161,273	(166,509)
CBPP - Deer Lake	539	381	920	437	412	849	(71)
North Atlantic Refining	30,702	21,708	52,410	38,364	36,208	74,572	22,162
Vale	223,726	212,989	436,715	74,900	70,690	145,589	(291,126)
Total	<u>1,285,395</u>	<u>1,213,146</u>	<u>2,498,541</u>	<u>974,527</u>	<u>919,751</u>	<u>1,894,278</u>	<u>(604,263)</u>

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1 Table 4 shows that the alternate method reduces the specifically assigned O&M
2 allocations to all customers with the exception of North Atlantic Refining. Because the
3 Vale assets are the newest in service, the restating of assets to current dollars in the
4 allocation methodology has the largest impact on this customer.